

# **FY 2007 FINANCIAL TREND ANALYSIS**

## **FINANCIAL FORECAST**

**Gallatin County, Montana**

**February 21, 2007**

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## **FINANCIAL FORECAST**

### **Introduction:**

Any plan, especially a financial plan, requires projections or forecasting. The forecasts must be based on known information supported by assumptions from current data projected into the future. The forecasts for this Plan are for revenue, expenses, employees, cash and reserves. The forecasts are based on the information contained in the Budget Analysis and Financial Trend Sections of this report.

A five – year budget projection time frame is used into the future. The forecasts provide the County with a frame of reference for evaluating the County’s financial condition, which helps facilitate the County Commission’s decision-making process.

### **Development of the Financial Forecast**

**Forecasts allow residents and Commission a reference point for decisions.**

Financial forecasts are to provide county residents and the County Commission with a reference point for evaluating the County’s financial condition as part of any decision making process. The Finance Office updates the forecasts annually with support from the County Clerk & Recorder, County Treasurer, County Commission, and employees of Gallatin County.

The forecasts are developed using a baseline environment for Revenue, Expenses and Personnel. The baseline information relies primarily on growth patterns or projections based on inflation using current service levels. Inflation and historical growth rates are used to predict changes to expenditures and revenues. These factors are adjusted by the elimination of items that will not reoccur – i.e. expansion of the dispatch function, or addition of probable items – historical approval of new employees, capital expenses and other items that have changed upward or downward during the previous five years.

Information regarding economic indicators and the performance of the economy are taken from the University of Montana (U of M), Bureau of Business and Economic Research (BBER), U.S. Department of Commerce Bureau of Economic Analysis and Woods & Poole.

The 32<sup>nd</sup> Annual Montana Economic Outlook Seminar report developed by The U of M, Bureau of Business and Economic Research projects the following for Gallatin County.

### **“OUTLOOK FOR GALLATIN COUNTY”**

Paul Polzin, Director of the Bureau of Business and Economic Research (BBER) at the University of Montana says “Bozeman has developed into a trade and service center. Growth in state government (mostly research at MSU), the federal government and nonresident travel have also been major contributors to the trends since 2001. The Bozeman area is home to much of the state’s high-tech industry, and this sector grew rapidly prior to the 2001 recession. Following national trends, this industry suffered significantly during the recession but has now regained its 2001 level. Construction and real estate are the wild cards impacting the short-term outlook for Gallatin County..... There may be a distinct deceleration if these industries start reflecting the cooling reported in the national economy.

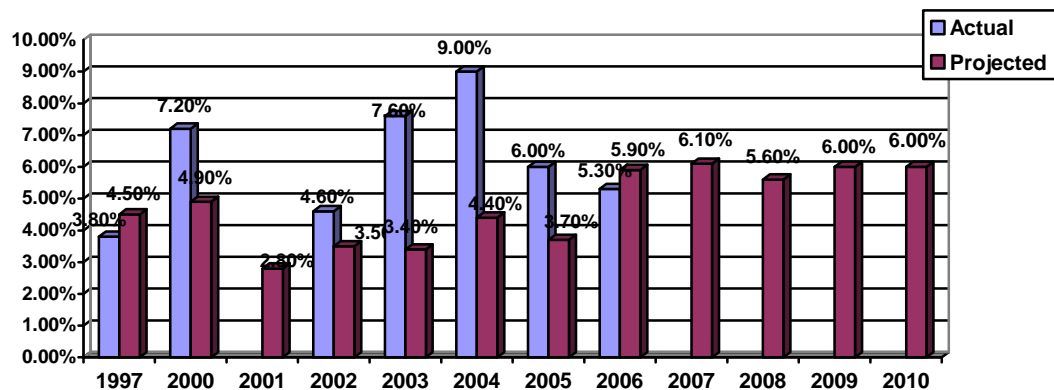
# Gallatin County Financial Plan

The Bureau Non-farm Labor Income and Wages growth for the last 5 reports shows:

	<b>2000 Report</b>	<b>2003 Report</b>	<b>2004 Report</b>	<b>2005 Report</b>	<b>2006 Report</b>	<b>2007 Report</b>
2000	4.9%	7.0%	7.6%			
2001	4.0%	6.2%	6.0%			
2002	3.1%	4.2%	3.7%	4.6%		
2003	3.4%	3.4%	4.3%	6.5%	6.9%	
2004	3.5%	3.1%	4.4%	2.4%	7.3%	7.0%
2005		3.2%	4.0% EST.	3.7%	8.3%	10.3%
2006		3.0%	3.5% EST.	3.9% EST.	5.9% EST.	5.3%
2007			3.4% EST.	3.7% EST.	5.3% EST.	6.1% EST.
2008				EST. 3.5%	EST. 4.6%	EST. 5.6%
2009				EST. 3.5%	EST. 3.7%	EST. 6.0%
2010						EST. 6.0%

The Bureau has estimated Labor Income growth in the county to be approximately 6% for the next 4 years (2007-2010). This indicates that the residents of the county will continue to see positive income compared to inflations.

The following Graph shows a history of Actual and Projected Percent Change in Non-farm Labor Income – Gallatin County, 1997-2005 from U of M (BBER).

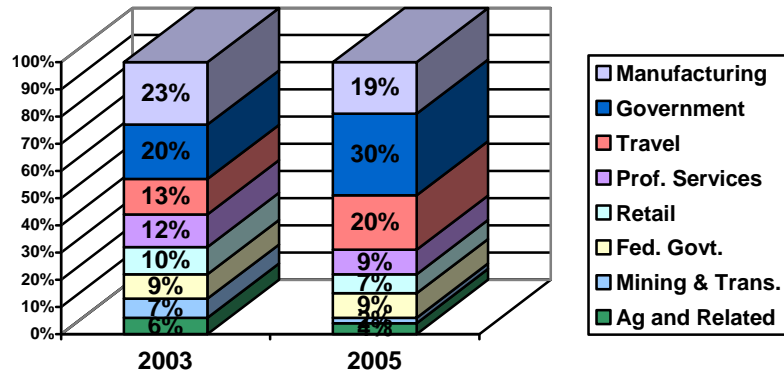


The preceding bar chart gives an historical perspective on the U of M BBER's accuracy. As can be noted the Bureau's estimate was under actual increases in 5 of the 7 years where a comparison is available. In two years they had overestimated Labor Income growth. More important is the fact that Labor income has grown by 32.5% (36.93 with compounding) in the last 5 years. Meaning that the average growth in Nonfarm Labor Income has been about 7%.

A comparison of Employment for 1980, 2000 through 2006 shows a dramatic increase in the number of persons employed from 18,680 in 1980 to 48,129 in 2006 (Source – Montana Department of Labor & Industry, Research & Analysis Bureau).

	<b>1980</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
• Labor Force		29,459	36,891	41,033	42,993	45,580	46,943	49,069
• Gross Employment	18,680	27,882	35,819	39,526	41,502	44,047	45,785	48,129
• Unemployment Rate		5.4%	2.9%	3.7%	3.5%	3.4%	2.5%	1.9%

The report shows that in recent years employment has changed, with decreases coming in Manufacturing 4%, Profession Services 3%, Federal Government 2%, Mining and Transportation 5% and Ag down by 2%. At the same time Government (MSU, Schools, City's, County and Special Districts) have increased by 10% and Travel related employment has increased by 7%. The stacked bar below shows the changes by industry of employees.



Information on potential growth for the County based on available date and sources shows:

- *The U of M projects that Gallatin County will have 86,000 residents by 2010.*
- *The Department of Labor & Industry has projected Gallatin County's Population to grow to 79,830 by 2006 up from 78,670 last year, with population growth to 84,780 by 2010.*
- *The Gallatin County Planning Office projects the County population will be 83,738 in 2010*

Woods and Poole for 2006 estimates growth in selected areas will be:

<u>Description</u>	<u>2000</u>	<u>2006</u>	<u>2010</u>
Population	67,790	80,630	89,490
Income / Capita (current \$)	\$25,139	\$30,055	\$34,798
Farm Earnings (Millions)	\$ 8.3	\$ 13.9	\$ 15.0
Non Farm Earn (Millions)	\$ 1,122	\$ 1,596	\$ 1,826

When making forecasts the lowest factor available is used. This is consistent with Gallatin County's conservative financial outlook, and allows greater flexibility if factors have been overestimated.

A positive factor for the County is the growth in tourism. This is a dramatic change from the report by the Institute for Tourism and Recreation Research showing Nonresident Visitor Trends at only .3% increase from 2003 to 2005. West Yellowstone park visitors were up 1.1% from the previous year. Winter sports activities saw significant increase in ski utilizations in 2005-2006.

Yellowstone Park Visitation was up 2.2% in 2006. Entrance through West Yellowstone was up 1.1%. The Institutes for Tourism and Recreation states that "When Yellowstone National Park is down, so is Montana nonresident tourism". Since West Yellowstone is the primary entry for Gallatin County then the 1.1% growth equates to a small increase in Tourism for the year.

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## Gallatin County Financial Plan

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On a negative side, Air Traffic at Gallatin Field is down almost 5% for calendar year ending December 31, 2006. For the time period 2000 – 2006, Gallatin Field had Passenger Boarding's and Deplanements increase from 482,539 to 633,762 (31.33% increase). For 2005, we saw an 8.54% increase.

The Bozeman Area Chamber has identified New Construction Valuation that came during 2003-2006 and in 2007 will come on the tax roles as follows:

<u>Year</u>	<u>Amount</u>
2002	\$ 86 Million
2003	\$133 Million
2004	\$144 Million
2005	\$199 Million
2006	\$192 Million
2007	

Electrical Connections were 1,639 for 2006 compared to 1,901 for 2005. This represents a 13.9% drop in the entire County. Gas connections decreased by 4.5% to 1,030 in 2006 from 1,078 in 2005.

Information published in local newspapers and presented at the annual Economic Outlook Seminar included statements that enhance the information contained in this report. The statements are:

- Bozeman/Gallatin County is the 4<sup>th</sup> fastest growing region in the nation, up 33% from 1990-2004;
- The areas median family income increased as being the fifth in the nation;
- Per Capita income increased at 33% for the period 1990-2002, when 2003 and 2004 will show an increase significantly greater than population growth;
- The areas per capita income is now the 11<sup>th</sup> highest in the region;
- Employment growth is second highest – 71% from 1990-2002; and
- We have the highest educational attainment of 37 peer cities – 41% are college educated.

RESIDENTIAL SALES (4<sup>th</sup> Quarter 2005 – Gallatin Association of Realtors and Chamber):

	<u>4<sup>th</sup> Qtr. 2005</u>	<u>4<sup>th</sup> Qtr. 2006</u>
Bozeman City	\$266,594	\$321,419
Bozeman Suburbs <1 acre	285,580	275,829
Bozeman Suburbs >1 acre	406,392	419,464
Belgrade City	195,786	200,131
Belgrade Suburbs <1 acre	191,080	200,838
Belgrade Suburbs >1 acre	200,000	233,400

### Forecast Summary

*Current analysis indicates that the County's revenue will not be sufficient to meet existing levels of service.* Growth in wages and operations will require \$2.04 million dollars over the next five years without any new staff. With historical staff increases included, Personnel costs will increase by \$4.9 Million Dollars by FY 2011.

#### **Need for Mill Levy Vote For Operating Expenses**

One method to offset the projected shortfall is for County Elected Officials and Department Heads to discuss, plan for and recommend to the County Commission an operating budget mill levy vote. Statewide, the public has historically voted for well conceived and openly discussed requests for increased funding for specific needs.

The County currently balances budgets through the use of cash not needed for Operating Reserves. This is available only as long as revenue collections are greater than anticipated and expenses are below the amount budgeted. The FY 07 actual expenses for Personnel are projected to use 97.80% of the amount Budgeted.

Revenues are projected to grow by an average of 4.0%. Non Tax Revenues are projected to grow similar to Income / Capita yearly average with Tax Revenues growing at 5.0%. Population increases will drive a portion of revenues and 1.9% is added for those revenues.

Expenditures for Personnel (see graph below) are projected to grow at 3.14% without new employees and 7.07% with new employees. However, Fringe Benefits are projected to grow at 4.7% for current employees and 8.89% with new employees, primarily from increases in Health Insurance costs, and increased costs for retirement contributions for changing Detention Officers from PERS to Sheriff Retirement System.

Capital Outlay and Capital Reserves are assumed to grow at a 2.3% rate. The funding of the new Detention Center is not included in these calculations. The assumption is: if a Detention Center is approved, adequate bonds will be issued. Operating Budget increases will be funded through new construction taxable value increases from FY 07 through completion of project and implementation of the inflation mill bringing the county's mill levy to the maximum allowed by law.

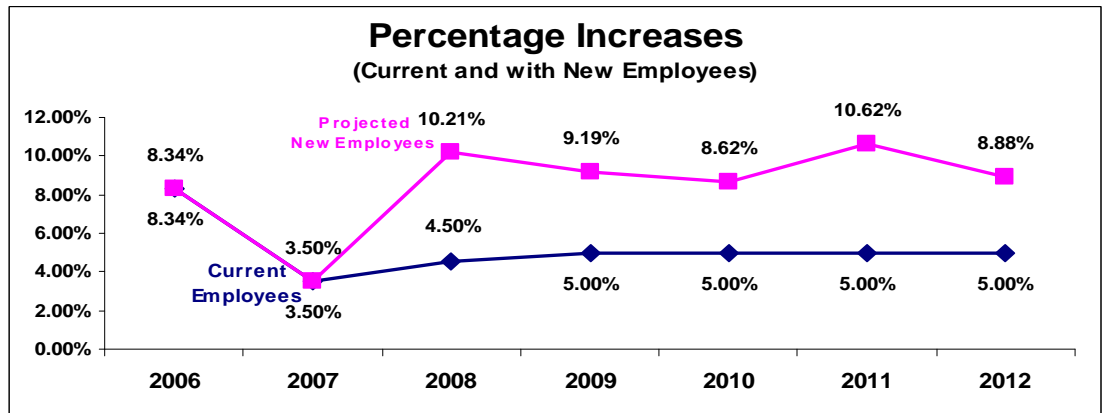
Operating Reserves are based on the recommendations within the Fiscal Policies. The current reserves of \$5,051,003 will increase to approximately \$5.3 million, an increase of \$250,000 over 5 years. Capital Reserves or Capital Equipment budgets are assumed to be funded through current millage or millage from New Construction Taxable Values. Compensated leave balances are assumed to continue to grow at or below the 6-30-05 amounts.

The graphs on the next page show the dramatic effect incremental personnel increases will have on the overall financial condition of the County. A simple 4.0% growth in revenues compared to a slightly lower growth in expenses, prior to the addition of new employee's results in a \$668,215 shortfall in FY 07, which grows to \$3.3 million shortfall by 2011. This will begin adversely affecting the County's services in FY 08 and into the future.

# Gallatin County Financial Plan

## Growth in Wages:

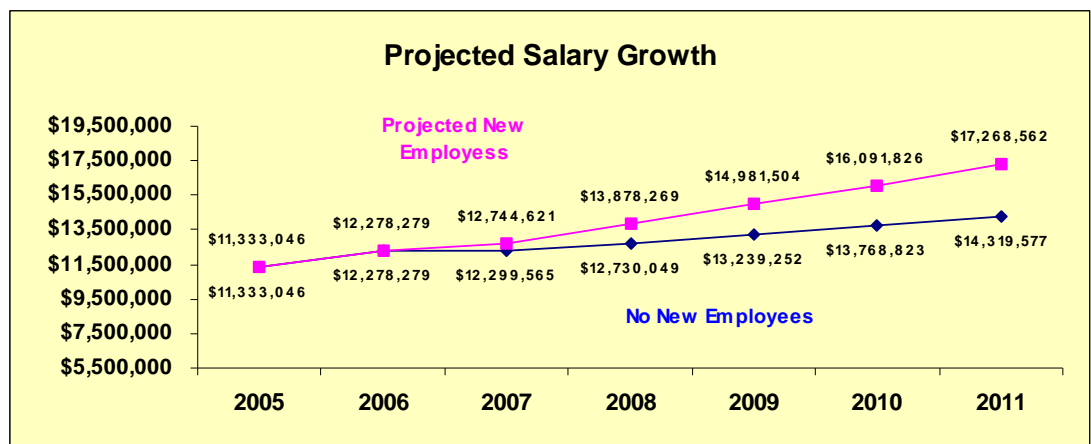
The graph that follows shows the percentage growth for current employees with forecasted new employees. The forecasted projections are based on historic levels of increased staff for **Tax Supported Funds**. The projections include staffing recommendations from the Criminal Justice Consultant. The significant change from historic percentages for FY 2007 comes from the state assumption of the Public Defenders Office, effective 7-1-06.



The percentages show that wages will increase by an average of 4.90% for current employees, (with normal turnover taken into consideration). This includes merit increases, longevity and wage adjustments. With projected new employees calculated into the percentages the average increases to 9.50%, a 4.60% average increase for the five years projected.

## Employee Growth in Dollars:

The next graph shows the growth in projected personnel budgets in dollars for the next five years, based on current employees and a projected new employee factor.



This graph shows the effect incremental increases have on salaries. To fund current employee wage adjustments, plus new employees, the County Commission needs \$5.0 million in new dollars over the next five years. This will require \$1 million per year. The \$5.0 million is slightly down from previous estimates, again because of the state assumption of the Public Defender activity.

# Financial Forecast

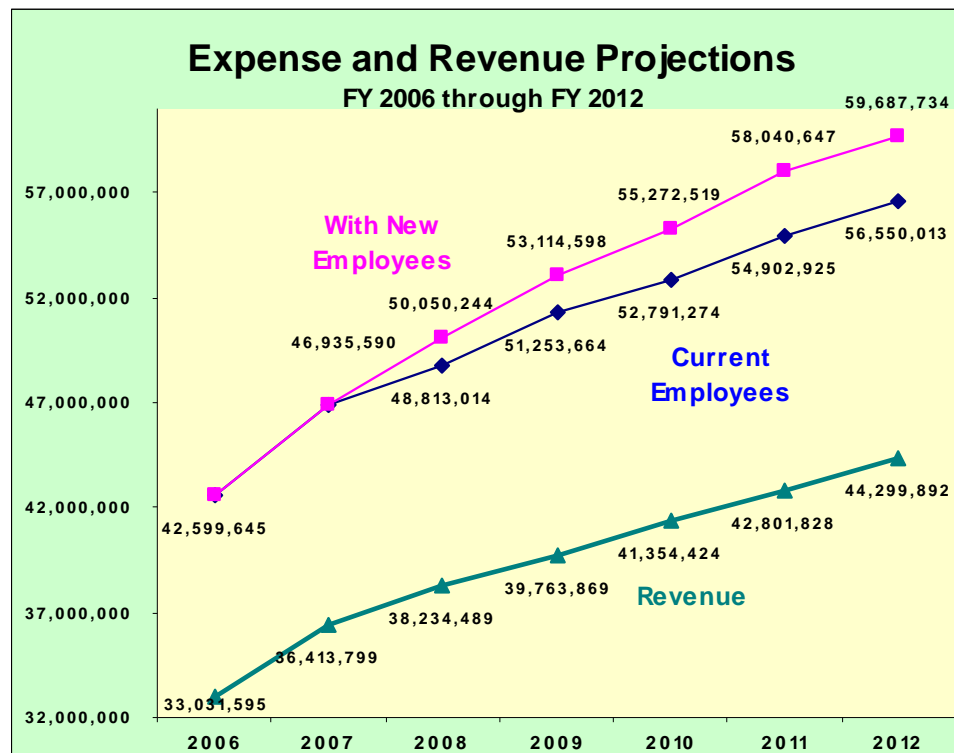
## Expense and Revenue Projections:

The following chart shows eight years of revenues, cash available for reappropriation and Expenses with the estimated shortfall for each year.

Year	2006 ACUTAL	2007 BUDGET	2008 ESTIMATE	2009 ESTIMATE	2010 ESTIMATE	2011 ESTIMATE	2012 ESTIMATE
<b>Revenues</b>	33,031,595	36,413,799	38,234,489	39,763,869	41,354,424	42,801,828	44,299,892
(Plus) <b>Cash</b>	16,400,852	16,036,440	9,469,612	8,522,650	7,670,385	6,903,347	6,213,012
(less) <b>Expenses</b>							
<b>Current</b>	33,396,007	46,935,590	48,813,014	51,253,664	52,791,274	54,902,925	56,550,013
<b>W/ New</b>			50,050,244	53,114,598	55,272,519	58,040,647	59,687,734
<b>Cash End of Year (Shortfall)</b>	16,036,440	5,514,650					
<b>Current</b>			(1,108,913)	(2,967,145)	(3,766,465)	(5,197,750)	(6,037,108)
<b>W/ New</b>			(2,346,144)	(4,828,078)	(6,247,710)	(8,335,471)	(9,174,830)

The shortfalls are cumulative and will be dramatically decreased as the County Commission balances each year's budgets. These projections do not include major Capital Projects, but do anticipate continuation of full floating millage earmarked for Capital Projects or Detention Center Operations.

The graph below shows the projected Expenses (both Current and With New Employees) and Revenues.





## **VII. Conclusion:**

Gallatin County has funded Capital Projects, new staff and normal operating costs with revenue growth over the past 12 years. The principle changes to revenue came from reappraisal and changes to State laws associated with motor vehicles.

The County's ability to pay for inflationary costs has been adversely impacted because of past legislative actions. The impacts are significantly increased from population growth and higher demands for service when new residents are added into the equation.

Major factors that will affect the county for the foreseeable future include:

1. Criminal Justice System Recommendations
2. Funding of Criminal Justice and County Office Space needs identified by consultant. This needs to include the assignment of space at the Guenther Memorial Building after full retrofit is completed.
3. Discussion on issuing Bonds versus operating levy vote for infrastructure needs (detention center, airport interchange, road / bridge needs).

During the next five budget years the County Commission will be confronted with:

1. Funding for Criminal Justice System needs approved in FY 05, FY 06 and FY 07 Budgets will adversely affect the County's ability to pay for wage adjustments, needed new staff, operational expenses and capital projects;
2. County Debt load will increase dramatically, for Open Lands Bond, currently approved loans; Detention Center Bond; proposed loans for Dispatch; Mental Health, Courthouse Annex, Fair and Road infrastructure capital needs will decrease funds available for operational expenses in the future – by an estimated \$595,000 per year when all loans are made.
3. Department needs will exceed revenue sources;
  - a. On the average 10% of the services currently being provided need to be reduced or eliminated without new sources of ongoing revenues;
  - b. Operating Reserves, Capital reserves and Capital Projects will be under greater stress, resulting in deferring of needs causing increased costs now and into the future.
4. Cash carry over will decrease, resulting in fewer dollars available for re-appropriation;
5. Insurance costs, both liability (5% to 10% increase for FY 07) and health (estimated increase of 5%); and,
6. Most importantly, restrictions on money available for wage increases and staff increases will adversely affect our ability to attract and retain qualified employees.

In closing, while the information provided by this report seems to be doom and gloom, the intent is to act as a warning to the Public, County Commission, Elected Officials, Department Heads and Employees of Gallatin County that the inability to deal with the Detention Center, Office Space, Transportation System and similar known needs is adversely affecting the Finances of the County.

**APPENDIX**

**INFORMATION**

**COMPARITIVE INFORMATION / STATISTICS:**

**CITY OF BOZEMAN BUILDING – from Bozeman Realtor's**

	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>
<b>Single Family</b>				
Units	287	327	332	_____
Value in Millions	\$48	\$55.60	\$62.17	\$_____
<b>Duplexes</b>				
Buildings	56	59	64	_____
Units	112	118	128	_____
Value in Millions	\$15.2	\$14.2	\$18.53	\$_____
<b>Multifamily</b>				
Units	215	414	489	_____
Value in Millions	\$17.0	\$35.4	\$50.05	\$_____
<b>Commercial</b>				
Building	41	34	41	_____
Value in Millions	\$29.5	\$26.3	\$49.34	\$_____
<b>Median Price</b>	\$190,000	\$233,000	\$245,000	\$_____

**COUNTY PLANNING / ZONING ACTIVITY - from County Planning:**

	<b><u>FY 01</u></b>	<b><u>FY 02</u></b>	<b><u>FY 03</u></b>	<b><u>FY 04</u></b>	<b><u>FY 05</u></b>	<b><u>FY 06</u></b>
Preliminary Plats	18	27	18	26	36	40
Land Use Permits	288	285	357	402	454	307
Final Plats	21	17	17	23	19	33
Lots Created						

**CITY OF BELGRADE BUILDING – from Jason Karp**

**2003                    2004                    2005**

# Gallatin County Financial Plan

The following information comes from the Bozeman Chamber of Commerce, Mr. Dave Smith, Executive

## Population

County	2000	2004	% change
Yellowstone	129,352	134,717	4.1
Missoula	95,802	99,018	3.3
Flathead	74,471	81,217	9
Cascade	80,357	79,849	0
<b>Gallatin</b>	<b>67,831</b>	<b>75,637</b>	<b>11.5</b>
Lewis & Clark	55,716	57,972	4
Ravalli	36,070	39,376	9.1
Silver Bow	34,606	33,093	-0.4

City	2000	2004	% change
Billings	91,683	96,977	7.9
Missoula	57,249	61,790	8.3
Gt. Falls	56,697	56,503	-0.3
<b>Bozeman</b>	<b>27,686</b>	<b>32,414</b>	<b>17.8</b>
Butte	33,892	32,393	-4.4
Helena	25,898	27,196	5.5
Kalispell	14,900	16,765	22.2
Belgrade	5,728	7,046	23

## Bank Deposits in Millions

	Bozeman	% Change	Gallatin County	% Change
<b>2006</b>	1,222,400	17.85%	1,550,000	17.85%
<b>2005</b>	1,037,244	12.42%	1,315,223	12.06%
<b>2004</b>	922,658	14.67%	1,173,694	15.75%
<b>2003</b>	804,655	13.63%	1,013,982	12.53%
<b>2002</b>	708,147	16.13%	901,110	15.48%
<b>2001</b>	609,766	15.22%	780,347	13.83%
<b>2000</b>	529,222	0.00%	685,528	5.03%
<b>1999</b>	529,222		652,684	

# Financial Forecast

## Population changes: U.S. Census Bureau.

	1990 Census	2000 Census	% Change	2002 Estimate	% Change	2003 Estimate	% Change	2004 Estimate	% Change
▪ Belgrade	3,422	5,728	67.39%	6,588	15.01%	6,816	19.00%	7,046	23.00%
▪ Bozeman	22,660	27,509	21.40%	29,459	7.09%	30,753	11.80%	32,414	17.83%
▪ Manhattan	1,034	1,396	35.01%	1,421	1.79%	1,447	3.70%	1,484	6.30%
▪ Three Forks	1,203	1,728	43.64%	1,775	2.71%	1,823	5.50%	1,874	55.78%
▪ West Yellowstone	913	1,177	28.92%	1,201	2.04%	1,213	3.10%	1,234	35.16%
▪ Unincorporated (Rural)	21,231	30,293	42.68%	30,762	1.55%	31,191	2.96%	31,585	4.27%
Gallatin County	50,463	67,831	34.42%	71,206	4.98%	73,243	7.97%	75,637	11.51%

## Gender / Age of Population:

	2000	2001	2002	2003	2004	2005
Male	35,274	35,533	36,332	37,002	38,168	39,392
Female	32,557	32,745	33,480	34,104	35,160	36,245

	2000	2001	2002	2003	2004	2005
Under 15	12,292	12,218	12,053	12,258	12,385	12,490
15-44	35,816	36,106	36,688	36,702	37,401	38,142
45-64	13,953	14,170	15,127	16,025	17,190	18,441
65-84	5,067	5,068	5,161	5,288	5,463	5,632
85 +	703	716	783	833	889	932

	2000	2001	2002	2003	2004	2005
Under 15	18.12%	17.89%	17.26%	17.24%	16.89%	16.51%
15-44	52.80%	52.88%	52.55%	51.62%	51.01%	50.43%
45-64	20.57%	20.75%	21.67%	22.54%	23.44%	24.38%
65-84	7.47%	7.42%	7.39%	7.44%	7.45%	7.45%
85 +	1.04%	1.05%	1.12%	1.17%	1.21%	1.23%

## Bozeman Daily Chronicle

### Article

**Sunday, February 9, 2003**

– Bozeman increased population 6,799 –1990 to 2002 (estimate):

### Effects of 1,000 new residents to Bozeman economy

- Bozeman Police Officers 2 per
- Bozeman Firefighters 1 per
- Library Books –1,860 per
- Fitness Classes – 11 new per
- Restaurants – 8 per,
- Movie Screens – less than 1 per
- Newspaper Carriers – 3 per
- Schools – New Students 104 per
- Worship – 3 per
- Contractor's Licenses - 113 per
- Mail Routes – Bozeman 1 per
- Traffic Signals – 3.3 per
- Motor Vehicles – 680 per
- Liquor Licenses – 1.5 per
- Beer & Wine Licenses – 3 per
- Water Mains/Fire Service – 12 miles per
- Sewer Mains – 8 miles per